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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

SANDRA KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BOB STUMP

Commissioner

Arizona Corporation Commission

DOCKETED

MAY - 3 2010

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IN THE MATTER OF THE APPLICATION
OF APPALOOSA WATER COMPANY, AN
ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ITS
ARSENIC COST RECOVERY
MECHANISM

DOCKET NOS. W-03443A-08-0177
W-03443A-08-0313

DECISION NO. 71692ORDER

Open Meeting
April 27 and 28, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACTIntroduction

1. Pursuant to Decision No. 71236, Appaloosa Water Company ("Appaloosa" or "Company") filed an application on December 22, 2009, with the Arizona Corporation Commission ("Commission") fulfilling the compliance requirements set forth in the above-referenced Decision to implement an Arsenic Cost Recovery Mechanism ("ACRM").

2. The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes fixed and/or volumetric charges.

Background

3. On March 26, 2008, Appaloosa filed with the Commission a financing application seeking authorization of a \$200,000 Water Infrastructure Financing Authority of Arizona ("WIFA") loan in order to finance construction of an arsenic treatment facility. On June 19, 2008, the Company filed a rate increase application with the Commission. On December 5, 2008, by Procedural Order, the finance and rate case dockets were consolidated. On August 6, 2009, the Commission issued Decision No. 71236 establishing new rates for the Company, granting approval of its financing application, and authorization for the Company to implement an ACRM to recover costs associated with its arsenic treatment facility.

4. On December 22, 2009, the Company filed the required loan documentation for a \$200,000 loan from WIFA in order to begin implementation of its ACRM. The Company is requesting that the arsenic surcharge recovers the principal and interest payments on its WIFA loan and related income taxes. The Company is not currently seeking recovery of new or additional operating and maintenance expenses.

Calculation of Arsenic Surcharge

5. Decision No. 71236 ordered that, upon the Company's filing of the appropriate WIFA loan documentation, Staff shall calculate the arsenic cost recovery mechanism surcharge and file the appropriate surcharge amount to be collected from Appaloosa's customers according to their meter size. Staff has calculated the ACRM surcharge necessary to recover debt service cost and the associated income taxes. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate ACRM surcharge based on meter size. Staff's ACRM surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a volumetric component.

6. To compute the ACRM surcharge, Staff utilized loan data provided by WIFA. This data updates the information provided by the Company in its loan documentation filing.

7. Based on the \$200,000 WIFA loan and a 3.6.75 percent interest rate, the Company would need an additional \$10,256.41 and \$4,337.87 annually for principal and interest, respectively, for a total of \$14,594.28 for debt service on the loan. Grossing up the annual debt

1 service total to account for \$4,253.29 in additional income taxes yields a total annual ACRM
2 requirement of \$18,847.57.

3 8. The ACRM surcharge recommended by Staff is a monthly surcharge of \$5.84 for a
4 customer with a 3/4-inch meter. The average residential customer bill with median usage of 6,253
5 gallons will increase by \$5.84 or 15.6 percent from \$37.50 to \$43.34 for the typical 3/4-inch meter
6 customer.

7 9. Staff's recommended ACRM surcharge produces \$18,847.57 annually utilizing the
8 test year billing determinants. This is the necessary amount to recover the Company's annual debt
9 service and the associated income taxes.

10 10. Staff recommends approval of the ACRM surcharges presented below:

11 **MONTHLY ARSENIC SURCHARGE**

12 5/8 x 3/4-Inch Meter	\$ 3.89
13 3/4-Inch Meter	\$ 5.84
14 1-Inch Meter	\$ 9.73
15 1 1/2-Inch Meter	\$ 19.46
16 2-Inch Meter	\$ 31.14
3-Inch Meter Surcharge	\$ 62.28
4-Inch Meter Surcharge	\$ 97.31
6-Inch Meter Surcharge	\$197.63

17 11. The Company has duly filed the loan documentation as required by Decision
18 No. 71236.

19 12. An ACRM surcharge comprised of the monthly customer components is presented
20 in ACRM Schedule DRE-2.

21 13. The Company is required to file with the Commission an arsenic remedial
22 surcharge tariff consistent with ACRM Schedules DRE-1.

23 14. Appaloosa Water Company is required to notify its customers of the arsenic cost
24 recovery surcharge tariffs approved herein within 30 days of the effective date of the Commission
25 Decision.

26 **CONCLUSIONS OF LAW**

27 1. The Company is a public water service corporation within the meaning of Article
28 XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of an arsenic cost recovery mechanism is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the ACRM as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Appaloosa Water Company for the implementation of its Arsenic Cost Recovery Mechanism is approved as discussed herein.

IT IS FURTHER ORDERED that Appaloosa Water Company is hereby authorized and directed to file with the Commission's Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the following arsenic cost recovery surcharges:

MONTHLY ARSENIC COST RECOVERY SURCHARGE

5/8 x 3/4-Inch Meter	\$ 3.89
3/4-Inch Meter	\$ 5.84
1-Inch Meter	\$ 9.73
1 1/2-Inch Meter	\$ 19.46
2-Inch Meter	\$ 31.14
3-Inch Meter Surcharge	\$ 62.28
4-Inch Meter Surcharge	\$ 97.31
6-Inch Meter Surcharge	\$197.63

1 IT IS FURTHER ORDERED that Appaloosa Water Company shall notify its customers of
2 the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of
3 this Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 CHAIRMAN

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10 COMMISSIONER

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12 COMMISSIONER

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14 COMMISSIONER

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16 COMMISSIONER

17 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
18 Executive Director of the Arizona Corporation Commission,
19 have hereunto, set my hand and caused the official seal of
20 this Commission to be affixed at the Capitol, in the City of
21 Phoenix, this 3rd day of MAY, 2010.

22 
23 ERNEST G. JOHNSON
24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26 DISSENT: _____

27 SMO:DRE:lhmvAV
28

1 SERVICE LIST FOR: Appaloosa Water Company
2 DOCKET NOS. W-03443A-08-0177 and W-03443A-08-0313

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4 Owner
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